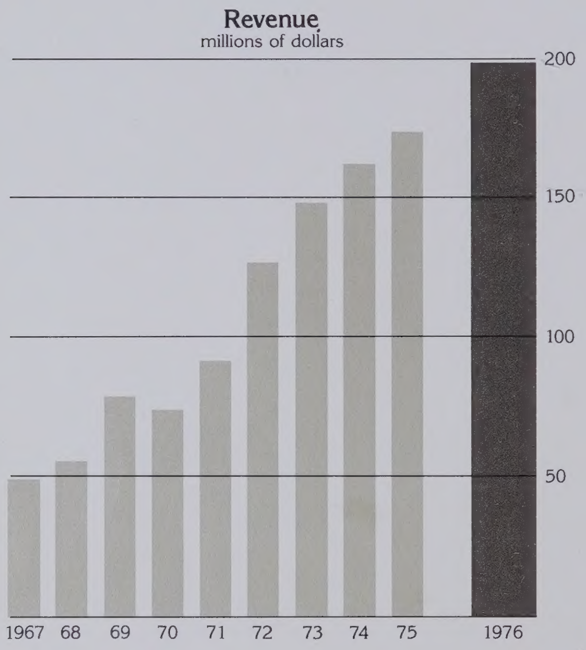
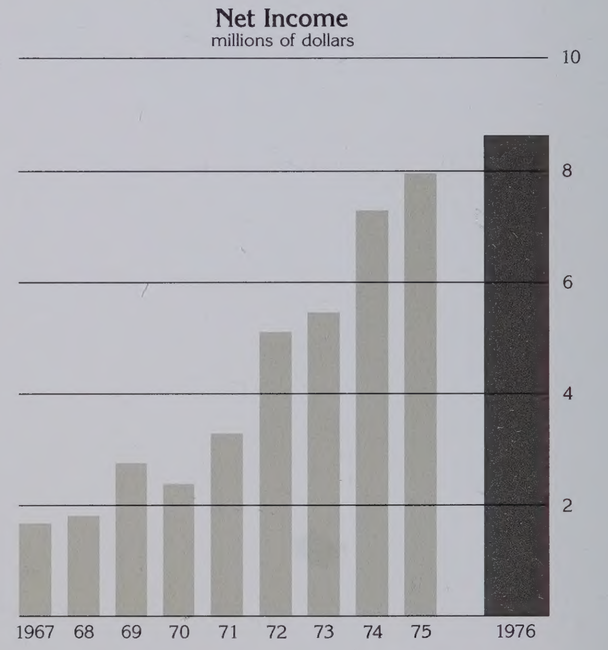
Finning 1976 Annual Report

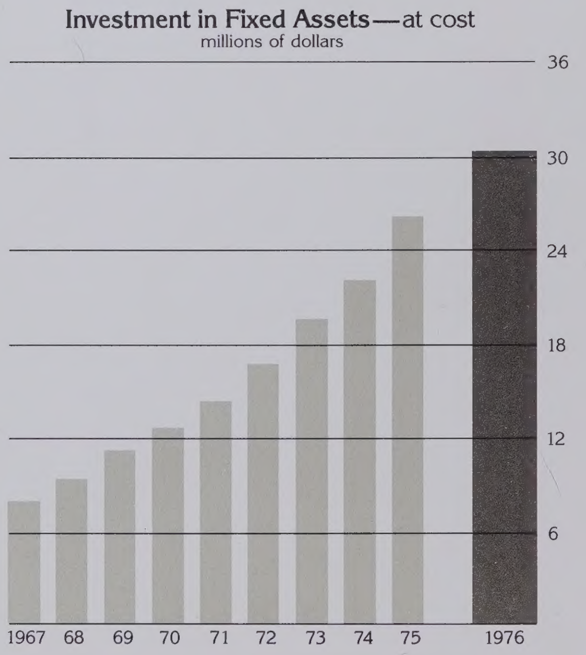
Finning Tractor & Equipment Company Limited

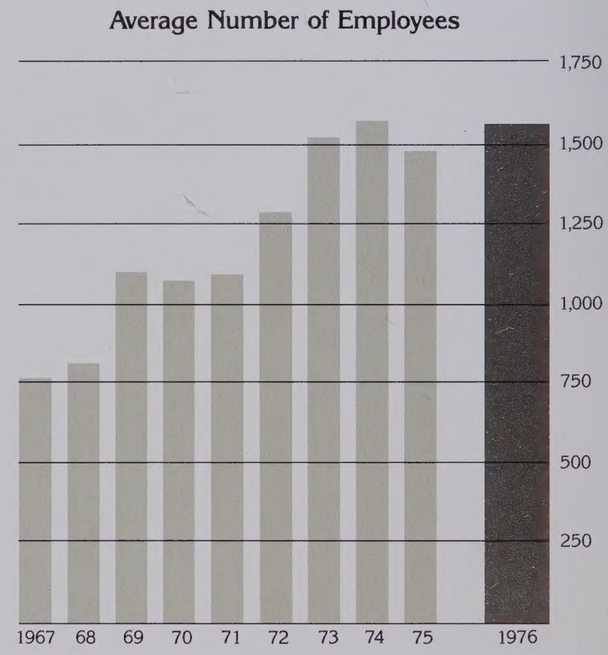
COVER PHOTO

Twin tugs powered by Caterpillar engines and electric sets work in Arctic waters in the intensive search for oil and natural gas.









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FINNING

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INTERIM REPORT
TO THE SHAREHOLDERS

for the six months ended
June 30, 1976

Chairman's Report

July 27, 1976

To the Shareholders:

Revenue for the first half of 1976 was $92,507,000, compared to $88,085,000 for the same period of 1975, an increase of 5%. Net profit decreased from $3,953,000 to $3,882,000, or 1.8%. Net income amounted to 98¢ per share as compared to $1.00 per share for the same period of 1975.

These results may be viewed as acceptable considering the difficulties resulting from labor unrest and the requirements of the Anti-Inflation Board.

We had forecast an improvement in activity in the second half of the year and, while the relevant basic economic factors still support this expectation, it will be seriously deferred if the current series of strikes and lockouts does not terminate.

WM Young

W. M. YOUNG
Chairman of the Board and Chief Executive Officer

 of Vancouver

Interim Consolidated Statement of Income

	Three months ended June 30 1976	Three months ended June 30 1975	Six months ended June 30 1976	Six months ended June 30 1975
	(thousands of dollars)			
Revenue	$ 52,037	$ 47,133	$ 92,507	$ 88,085
Cost of sales and operating expenses	47,889	42,688	85,609	80,018
Income before income taxes	$ 4,148	$ 4,445	$ 6,898	$ 8,067
Provision for income taxes	1,864	2,267	3,016	4,114
Net income	$ 2,284	$ 2,178	$ 3,882	$ 3,953
Income before income taxes as a percentage of revenue	8.0%	9.4%	7.5%	9.2%
Net income as a percentage of revenue	4.4%	4.6%	4.2%	4.5%
Net income per Common Share	$ .58	$ .55	$ .98	$ 1.00
Weighted average number of Common Shares outstanding during the period	3,971,400	3,970,600	3,971,400	3,957,242

Interim Consolidated Statement of Changes in Financial Position

	Six months ended June 30 1976	Six months ended June 30 1975
	(thousands of dollars)	
Funds provided by:		
Operations—		
Net income	$ 3,882	$ 3,953
Add charges not requiring the outlay of funds—		
Depreciation—		
Equipment leased to customers	3,394	2,955
Fixed assets	898	805
Deferred income taxes	470	861
Total funds from operations	$ 8,644	$ 8,574
Sale of fixed assets	122	30
Issue of share capital	—	181
Other	—	20
	$ 8,766	$ 8,805
Funds applied to:		
Additions—		
Equipment leased to customers, net of disposals	$ 5,010	$ 5,426
Fixed assets	1,197	3,298
Payment of long-term debt	19	620
Dividends paid	794	791
	$ 7,020	$ 10,135
Increase (decrease) in working capital	$ 1,746	$ (1,330)
Working capital, January 1	10,048	11,772
Working capital, June 30	$ 11,794	$ 10,442

Approved on behalf of the Board,

JD Frazee
J. D. Frazee, *Director*

V Sood
V. K. Sood, *Director*

The above statements have not been audited and are subject to year-end adjustments.

An announcement from Finning

Finning enters the Yukon

On January 3, 1977, Finning became the Caterpillar dealer for the Yukon Territory and the northwest corner of British Columbia; a vast area with exciting potential.

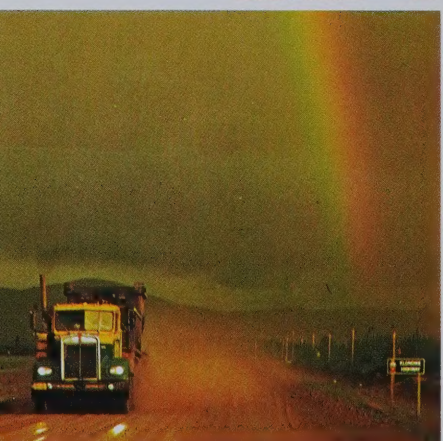
The Yukon encompasses 207,000 square miles and has a population of 23,000 with almost two-thirds of these people residing in Whitehorse, the capital city.

Mining is the dominant primary industry; zinc, asbestos, lead, silver and copper leading in values. Yet the mineral wealth has barely been tapped and development of several known mineral deposits awaits access to transportation routes. Access is also the key to growth in the forest industry. At present, only a third of the 27 million acres of productive forest is accessible.

But a transportation network is near completion. Only some 60 miles remain to be built on the Dempster Highway to link Inuvik in the Mackenzie Valley, NWT, with Whitehorse and the Alaska Highway. A new road south will be completed in 1978 to join Whitehorse to Pacific waters at Skagway, Alaska and complement the 100-mile rail connection of the White Pass & Yukon Route.

Finning has acquired the assets of the former dealer, NC Machinery, of Seattle. A modern, 28,000 square foot building on 12 acres of land in Whitehorse has a 10-bay service department with specialized repair tools and sophisticated test equipment. The parts department carries more than 12,000 Caterpillar line items and has teletype and Telex to other Finning branches and Cat parts depots. The NC Machinery staff of 23 has joined Finning, assuring continuity of customer contact and service.

Finning is pleased to be part of this land of opportunity.




The DUCHESS


DOWNTOWN HOTEL
SOURDOUGH SALOON

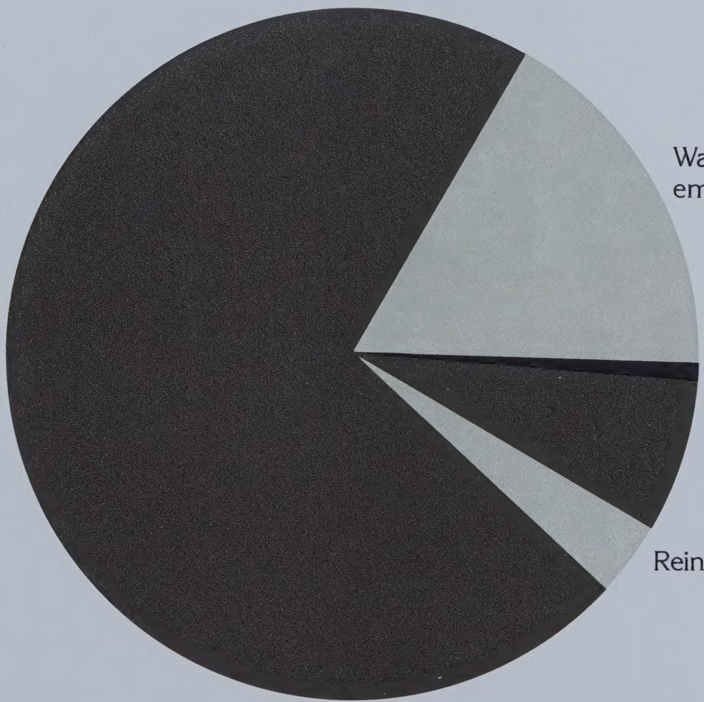

FINNING


ALASKA
Clinton Creek
Dawson City
YUKON
Faro
Whitehorse
Watson Lake
NORTHWEST TERRITORIES
BRITISH COLUMBIA
ALBERTA
WASHINGTON
Finning locations

Results in Brief

	1976	1975
	(thousands of dollars)	
Revenue	$199,795	$173,812
Income before income taxes	14,583	15,675
Net income	8,609	7,942
Capital expenditures	4,497	4,628
Net income per share	$ 2.17	$ 2.00
Income before income taxes as a percentage of revenue	7.3%	9.0%
Net income as a percentage of revenue	4.3%	4.6%
Number of employees at year end	1,664	1,467

Distribution of the Revenue Dollar



To the Shareholders

Revenue for the year 1976 was $199,795,000, compared with $173,812,000 in 1975, an increase of 14.9%. Net income increased to $8,609,000 from $7,942,000, an increase of 8.4%. This amounted to $2.17 per share as compared to $2.00 per share in 1975.

These results, while acceptable, do point up some problems encountered during the year. While our revenue forecasts for the year proved to be extremely accurate, with a slow start and a strong finish, we experienced difficulty in controlling new equipment sales expenses. A complex set of factors—competitive pressures, remuneration expense, warranty costs and inventory finance costs—is involved but the situation will be corrected. There should be a marked improvement in the 1977 ratios.

Our lease and conditional sales contract portfolios continued to grow and made a significant contribution to the Company's profitability.

The net result of all this was that we finished the year with a net income before tax of $1,092,000 less than 1975. The application of the federal investment tax credit on equipment rented to customers placed us in a favourable position in terms of net income after tax. The funds generated were re-invested in the Company.

The significant increase in new equipment inventories and a corresponding increase in accounts payable were directly attributable to our use of manufacturers' special finance plans which are to our advantage.

Capital expenditures for the year continued at a high level of $4,497,000. In December, we had acquired the assets of Northern Commercial Company Limited in Whitehorse and on January 3, 1977, became the Caterpillar dealer in the Yukon Territory. The Whitehorse facility is a modern building of 28,000 square feet on 12 acres of property. We paid $1,000,000 for this facility but, more importantly, we were joined by a staff of 23 employees whom we warmly welcome to our Company. Although an American company, Northern Commercial has had a long history in the Yukon and we intend to build on the reputation which they have established over the years.

At the present time, the economy of the Yukon is somewhat depressed and the contribution that will be made by the Whitehorse operation will be similar to that of one of our smaller branches in B.C. However, we are very confident of the potential of the Yukon. We are delighted with this acquisition.

On March 31st, Richard E. Lane retired from the presidency of the Company after 27 years of service, the last two and a half years as President. Mr. Lane has done an outstanding job for our organization and carries on as a Director and as a member of the Audit Committee. Mr. Lane's retirement brought about several changes in the executive organization. John D. Frazee became President, Robert C. Biss, Executive Vice President and Vinod K. Sood, Executive Vice President. W. F. (Jerry) Holmes was named Vice President, Marketing, and Donald W. Lord, Vice President, Branch Operations. In July, Peter J. Kelly was appointed Vice President, Divisional Operations.

1977 will be a good year for the Company provided labor negotiations in the province can be concluded without prolonged work stoppages and that the impact of the very strange weather patterns now affecting all of this continent do not seriously affect our provincial economy.

All employees are to be congratulated on the fine effort which was put forth during the year.

Wm Young

W. M. YOUNG
Chairman of the Board and
Chief Executive Officer

Demand for feller bunchers, recently developed from Caterpillar hydraulic excavators, increased with trend towards more mechanized logging in Interior smallwood forests.

Sale of Caterpillar hydraulic excavators for construction and logging roadbuilding was major marketing success in 1976.

Highlights of Operations

	Revenue	Income before income taxes	Net income	Capital expenditures	Net income per share	Income before income taxes as a percentage of revenue	Net income as a percentage of revenue	Number of employees at year end
1976	$199,795,000	$14,583,000	$8,609,000	$4,497,000	$2.17	7.3%	4.3%	1,664
1975	173,812,000	15,675,000	7,942,000	4,628,000	2.00	9.0%	4.6%	1,467
1974	162,101,000	15,424,000	7,286,000	3,232,000	1.85	9.5%	4.5%	1,542
1973	148,157,000	11,241,000	5,475,000	3,533,000	1.40	7.6%	3.7%	1,577
1972	126,622,000	9,732,000	5,084,000	2,552,000	1.31	7.7%	4.0%	1,373
1971	91,707,000	6,422,000	3,286,000	1,786,000	.84	7.0%	3.6%	1,180
1970	74,092,000	4,867,000	2,384,000	1,630,000	.61	6.6%	3.2%	1,011
1969	78,584,000	5,671,000	2,772,000	1,985,000	.71	7.2%	3.5%	1,207
1968	55,413,000	3,838,000	1,812,000	1,671,000	.47	6.9%	3.3%	894
1967	49,508,000	3,159,000	1,681,000	412,000	.43	6.4%	3.4%	765

Consolidated Balance Sheets

December 31, 1976 and 1975

Assets

CURRENT ASSETS:	1976	1975
Accounts and notes receivable (Note 5)—		
Accounts receivable	$ 30,011,310	$ 24,512,785
Instalment notes, at principal balances, including $20,109,792 due after one year ($13,299,808 in 1975)	40,794,660	30,032,033
Income taxes refundable	2,904,491	—
Inventories (Notes 2 and 5)—		
Equipment	60,283,551	34,172,074
Parts and supplies	21,022,772	14,988,697
Total current assets	$155,016,784	$103,705,589
EQUIPMENT LEASED TO CUSTOMERS (Notes 3 and 5)	$ 31,385,715	$ 26,918,542
FIXED ASSETS, at cost (Notes 4 and 6):		
Land	$ 3,516,107	$ 2,966,148
Buildings and equipment	$ 26,928,170	$ 23,201,696
Less accumulated depreciation	11,777,296	10,151,170
	$ 15,150,874	$ 13,050,526
	$ 18,666,981	$ 16,016,674
	$205,069,480	$146,640,805

Approved on behalf of the Board:

J. D. Frazee

J. D. FRAZEE, Director

V. Sood

V. K. SOOD, Director

Finning Tractor & Equipment Company Limited

Liabilities

	1976	1975
CURRENT LIABILITIES:		
Bank loans and indebtedness (Note 5)	$100,049,884	$ 72,066,193
Accounts payable and accruals (Note 7)	35,933,284	15,443,153
Income taxes payable	—	399,189
Deferred income taxes—current portion (Note 8)	6,842,772	4,898,783
Current portion of long-term debt (Note 6)	53,029	850,413
Total current liabilities	$142,878,969	$ 93,657,731
LONG-TERM DEBT (Note 6)	$ 247,865	$ 275,673
DEFERRED INCOME TAXES (Note 8)	$ 9,363,768	$ 7,148,710
SHAREHOLDERS' EQUITY (Note 11):		
Share capital (Notes 9 and 10)	$ 9,096,562	$ 9,096,562
Earnings retained for reinvestment in the business—		
Balance, beginning of year	$ 36,462,129	$ 30,105,913
Net income	8,608,747	7,941,931
Dividends paid	(1,588,560)	(1,585,715)
Balance, end of year	$ 43,482,316	$ 36,462,129
	$ 52,578,878	$ 45,558,691
	$205,069,480	$146,640,805

Consolidated Statements of Income

for the years ended December 31, 1976 and 1975

	1976	1975
REVENUE	$199,795,311	$173,812,221
EXPENSES (Notes 12 and 13):		
Cost of sales and selling expenses	$165,391,418	$141,641,576
General and administrative	11,116,935	9,966,672
Interest—Current	8,681,539	6,445,445
—Long-term	22,438	83,439
	$185,212,330	$158,137,132
INCOME BEFORE INCOME TAXES	$ 14,582,981	$ 15,675,089
PROVISION FOR INCOME TAXES (Note 8)	5,974,234	7,733,158
NET INCOME	$ 8,608,747	$ 7,941,931
NET INCOME PER SHARE (Note 14)	$ 2.17	$ 2.00

Consolidated Statements of Changes in Financial Position

for the years ended December 31, 1976 and 1975

WORKING CAPITAL PROVIDED BY:	1976	1975
Operations—		
Net income	$ 8,608,747	$ 7,941,931
Add charges not requiring the outlay of working capital—		
Depreciation—		
Equipment leased to customers	7,188,108	6,126,609
Fixed assets	1,731,293	1,535,300
Deferred income taxes	2,215,058	1,552,595
Total working capital from operations	$ 19,743,206	$ 17,156,435
Sale of fixed assets	115,503	246,394
Long-term debt	21,650	59,811
Issue of share capital	—	181,368
	$ 19,880,359	$ 17,644,008
WORKING CAPITAL APPLIED TO:		
Additions—		
Equipment leased to customers, net of disposals	$ 11,655,281	$ 12,288,824
Fixed assets	4,497,103	4,627,621
Payment of long-term debt	49,458	866,019
Dividends paid	1,588,560	1,585,715
	$ 17,790,402	$ 19,368,179
Increase (decrease) in working capital	$ 2,089,957	$ (1,724,171)
WORKING CAPITAL, BEGINNING OF YEAR	10,047,858	11,772,029
WORKING CAPITAL, END OF YEAR	$ 12,137,815	$ 10,047,858

Notes to Consolidated Financial Statements

December 31, 1976

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of subsidiary companies, all of which are wholly-owned. They are:

Airpro Equipment Ltd., operating as Finning Air Products Division and Air Products (Alberta)

Cancal Properties Ltd.

Finning Air Products Ltd., a wholly-owned subsidiary of Airpro Equipment Ltd.

Finning Finance Limited

Finning Tractor (1959) Ltd.

2. INVENTORIES

Inventories have been valued at the lower of cost or net realizable value. Cost has been determined on a specific item, actual cost basis for equipment and on a first-in, first-out basis for parts and supplies.

3. EQUIPMENT LEASED TO CUSTOMERS

	1976	1975
Cost	$49,518,600	$37,863,319
Less accumulated depreciation	18,132,885	10,944,777
	$31,385,715	$26,918,542

Depreciation of equipment leased to customers has been provided in the accounts in equal monthly amounts over the terms of the individual leases after giving recognition to the estimated residual value of each unit of equipment at the end of each lease.

Under the terms of the lease agreements in effect at December 31, 1976, $7,262,706 of the above cost will be recovered in 1977 ($6,009,000 in 1976).

4. FIXED ASSETS

Depreciation of fixed assets has been provided in the accounts at the following annual rates on a declining balance basis:

Buildings	5% and 10%
General equipment	20%
Automotive equipment	30%

5. BANK LOANS AND INDEBTEDNESS

	1976	1975
Demand notes	$ 40,220,878	$34,183,799
Bankers' acceptances payable at various dates within 24 days after December 31, 1976 (within 28 days after December 31, 1975)	59,829,006	37,882,394
	$100,049,884	$72,066,193

Bank loans and indebtedness are secured by the pledge of $95,000,000 principal amount of Series A Debentures, by a general assignment of accounts and notes receivable, and by an assignment of insurance on inventories. The Series A Debentures are joint demand debentures issued by the Company and its subsidiaries as collateral security and constitute a first floating charge on accounts and notes receivable, inventories and equipment leased to customers. They also contain certain restrictions which, among other things, limit the payment of dividends as explained in Note 11.

6. LONG-TERM DEBT

	1976	1975
First Mortgage Debentures	$ —	$ 800,000
Other first mortgages	258,410	274,827
Other secured agreements	42,484	51,259
	$ 300,894	$1,126,086
Less—		
Current portion included in current liabilities	53,029	850,413
	$ 247,865	$ 275,673

Other first mortgages on certain land and buildings bear interest from 7% to 10% per annum. Combined annual payments, including principal and interest, total $59,522. The maturity dates of the first mortgages range from 1977 to 1996.

Other secured agreements bear interest from 6% to 8% per annum. Combined annual principal payments total $12,742 and these agreements mature in 1978, excepting a loan against the cash surrender value of a life insurance policy which has no specific repayment terms.

7. CURRENCY TRANSLATION

The accounts payable and accruals include $17,464,104 ($2,742,572 at December 31, 1975) payable in U.S. funds which has been translated to Canadian funds at the year-end exchange rate.

8. INCOME TAXES

The provision for income taxes is calculated on the basis of current effective tax rates. The provision represents 40.97% (49.33% in 1975) of pre-tax income of $14,582,981 ($15,675,089 in 1975) and is net of the federal investment tax credit of $1,295,245 ($408,319 in 1975).

Deferred income taxes have resulted from reporting certain items for income tax purposes on bases which differ from accounting policies.

The current portion of deferred income taxes relates to the following current assets:

(a) Inventories, which include equipment rented to customers on a short-term basis. For accounting purposes, depreciation is recorded on the basis of rentals billed while for income tax purposes maximum allowances are claimed.

(b) Notes receivable, which include conditional sales contracts relating to equipment sales. For accounting purposes, the profit is recognized when the sale is made while for income tax purposes the profit is reported as principal payments are received.

The non-current portion of deferred income taxes relates to equipment leased to customers on which depreciation for accounting purposes is recorded as explained in Note 3. For income tax purposes, maximum allowances are claimed.

9. SHARE CAPITAL

The Company is authorized to issue 10,000,000 Common Shares without nominal or par value, of which 3,971,400 were outstanding at December 31, 1976.

There were no changes in the outstanding share capital during 1976. In 1975, 28,450 Common Shares were issued for cash totalling $181,368 on the exercise of stock options.

10. STOCK OPTIONS

In 1969 an employee stock option plan reserved 194,400 Common Shares of the Company for issue under options granted to full-time officers and employees. The directors granted options to purchase 84,000 Common Shares. Prior to their expiry on April 30, 1975, options on 83,400 Common Shares were exercised. Options on 600 Common Shares terminated on cessation of employment and these shares once again became reserved under the plan.

Options on the remaining 111,000 Common Shares reserved under the plan may be granted at prices not less than 90% of the higher of the last reported sale prices of such shares on the Vancouver Stock Exchange or The Toronto Stock Exchange on the day immediately preceding that on which such options are granted.

11. RESTRICTIONS ON THE DISTRIBUTION OF SHAREHOLDERS' EQUITY

As the Company is subject to federal anti-inflation legislation, dividends payable during the twelve months ending October 13, 1977, may not exceed $1,985,483 or 50 cents per share based on the number of Common Shares outstanding as at December 31, 1976 without the approval of the Anti-Inflation Board.

Under the terms of an agreement with the Company's bank, the total amount of dividends and reductions in share capital in any fiscal year may not exceed the greater of the net income for the current and the preceding fiscal year.

12. PENSION PLAN

The Company retains an independent consultant who prepared actuarial reports on the employee pension plan as at December 31, 1973 and December 31, 1975. The consultant has estimated that the funds in the plan were more than adequate to meet the liabilities which existed at December 31, 1975. When a projection of estimated future remuneration was introduced into the actuarial calculations, the unfunded past service cost was $880,000 at December 31, 1973 and $1,904,800 at December 31, 1975.

The unfunded past service cost at December 31, 1973 is being funded and charged to expense over a period of 18 years which commenced in 1974. The increase in this cost during the two years ended December 31, 1975, $1,024,800, is being funded over 20 years commencing

in 1976. It is attributable to salary increases in excess of actuarial assumptions and to improved benefits; the resulting cost increases are being charged to expense over periods of four and 16 years respectively, commencing in 1976.

Pension plan expense, including contributions to statutory plans, was $1,030,798 in 1976 ($879,000 in 1975).

13. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration paid by the Company and its subsidiaries directly or indirectly to the directors and senior officers was $783,807 in 1976 ($609,540 in 1975). This amount reflects the retirement of the former President and the appointment of three additional Vice Presidents in 1976.

14. NET INCOME PER SHARE

Net income per share has been calculated on the weighted average number of Common Shares outstanding during 1976 of 3,971,400 (3,964,587 in 1975).

15. CANADIAN ANTI-INFLATION LEGISLATION

The Company and its subsidiaries are subject to, and have complied with, the price, profit, compensation and dividend controls imposed by the federal legislation.

Auditors' Report

TO THE SHAREHOLDERS
FINNING TRACTOR & EQUIPMENT COMPANY LIMITED

We have examined the consolidated balance sheets of FINNING TRACTOR & EQUIPMENT COMPANY LIMITED (a British Columbia company) AND SUBSIDIARIES as of December 31, 1976 and 1975, and the related consolidated statements of income and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Finning Tractor & Equipment Company Limited and subsidiaries as of December 31, 1976 and 1975, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

February 8, 1977
Vancouver, Canada

ARTHUR ANDERSEN & CO.
Chartered Accountants

Caterpillar D3 tractor, smallest in line, is equipped with wide tracks for pole skidding duties in wet, steep coastal terrain.

Steady Growth in a Difficult Year

1976 was a year of contrasting markets for the Company. But despite sharp variances in market conditions and activity, our revenue forecasts proved accurate and most operations ended the year with satisfactory results.

Forestry rebounds

The forest industry, traditionally accounting for half of our annual sales, rebounded from its deep recession of 1975. Lumber sales led the market improvement keyed by a record number of housing starts across Canada and a high level of activity in the United States. Pulp and paper markets looked good until mid-year when softening demand led to a surplus in world inventories. Plywood faced severe competition at home and finished the year weaker in overseas markets.

In woods operations, two contrasting situations developed. While Coastal logging companies worked to near capacity under favorable conditions, Interior loggers, faced with extremely wet weather and repeated shutdowns of the B.C. Railway, had to expand their equipment fleets beyond normal demand to meet production targets. The combined result was near record sales to the industry.

Construction activity declines

The picture was not as bright in construction where unit sales were at their lowest point in recent years. Outside of machines used in residential, commercial and industrial building activity and continuation of municipal sewer installations, sales of bigger units were mainly replacement for completion of work on the B.C. Railway and for hydro developments. However, in the second half of the year, the provincial government announced a multi-million dollar highways program, the major impact of which will be felt in 1977.

Mine sales slow

Our sales to the mining industry were slow. Although exploration and development activity and the number of mineral claims staked increased significantly over 1975 figures, production at the province's major copper and coal producers was seriously hampered by extended labor strife. Work stoppages in the large coal operations particularly affected our volume.

Sales to the oil and natural gas industry maintained 1975 levels and increased marketing emphasis on governmental business produced a substantial increase in units delivered to that market sector.

Used equipment volume was up in dollars over 1975 but down slightly in units as more of the higher-priced models were sold. It was a tougher market competitively and the near-record number of new units sold created a heavy inventory of trade-ins, but extra sales effort resulted in a successful year with a slight increase in profitability.

Parts and service

Parts and service revenues were on target. Service department activity was generally higher with a substantial portion due to preparation of new unit deliveries and repair of trade-ins. Service contracts, particularly with large mining companies, were maintained; customers made more use of diagnostic and preventive maintenance services. During the year, 102 mechanics, welders and apprentices were added to the service work force.

Significant in parts operations was increased competitive activity. To combat this, the Company expanded its field support sales staff and focussed its marketing effort on the main competitive areas.

Several years ago, the Prince George operation developed a used parts business and its success prompted a move in the last half of the year to set up a similar activity in Vancouver. This operation performs a service to, and maintains contact with, a particular market segment.

Divisional review

The year's results for the Company's product divisions were markedly mixed.

The Air Products Division attained its forecast in both volume and profitability. Tank Drill sales to the forest industry picked up in the last six months as logging road construction accelerated and sales and rentals of air products and the JLG personnel lift to the construction market improved in the last quarter. Buoyant northern Alberta markets spearheaded the division's good showing.

Crane and Excavator Division reported a successful year. Despite the slowdown in construction, crane deliveries exceeded the total for 1975.

Earthmoving on major mining project is handled by Caterpillar 631 tractor scraper with 30 cubic yard heaped capacity.

Excavator sales grow

The outstanding product success story of the year was the Caterpillar hydraulic excavator. Our growth rate in this market since the introduction of the first Caterpillar excavator in 1973 has been phenomenal. Sales more than tripled the 1975 volume and by year-end, the Company had become a dominant force in the backhoe markets. Our Cat excavators were at work on sewer and water line, site development, land clearing, and logging applications.

The majority of the machines are building logging roads throughout the province. The Company pioneered the application of the hydraulic excavator as a logging roadbuilding tool in terrain too rocky or wet for the conventional track-type tractor.

As stated in our last Annual Report, during 1975 comprehensive engineering studies culminated in the design and assembly of two feller buncher adaptations of the excavator. This tree harvesting tool, applicable in Interior forests, fits the trend there towards greater mechanization. The machine, pictured on Page 3, clamps the tree, cuts it with hydraulically-powered shears, then lays it neatly alongside others to be moved out to a landing area and loaded on trucks. The bigger model can cut trees of up to 30-inch butt diameter. With the smaller model, working in 12-inch to 16-inch wood, it is not unusual to average 150 trees per hour.

Development of a log loader version of the hydraulic excavator, mainly suited to heavier Coastal timber, was also carried out in 1975. Several units are now at work.

Engine Division

In the Engine Division, sales were off sharply. The total marine market, the biggest user of our engines, declined severely as the boatbuilders' ways were virtually empty through most of the year. The industrial engine market was also down; most of the major utilities had satisfied their immediate demands. The one bright spot in 1976 was continuing success in marketing truck engines.

New series Caterpillar D8K tractor rips overburden for easier removal at mining operation in the Highland Valley.


2-117

Truck shop busy

The pace in the Burnaby Truck Shop was busy as truckers, from large fleet owners to individual owner-operators, turned to this two-year-old operation in increasing numbers for repairs and overhauls. The number of TEPS (Truck Engine Product Support) dealers appointed by Finning was increased to bring to 49 the number of facilities where parts and service are available.

Lift truck markets down

The Lift Truck Division was also plagued with poor markets which continued their decline with total industry sales dropping to less than half the number for 1974. However, while industry sales decreased, the Division improved its market position.

A large part of the marketing improvement is due to the new Caterpillar electric lift trucks which, in a trend towards electrics in the solid tire lift truck market, are proving very popular. Late in the year Caterpillar introduced a series of Canadian-made, conventionally-powered, 6,000 pound to 8,000 pound capacity pneumatic trucks for lumber handling and building supply markets. These models are expected to improve the Division's performance.

The Light Industrial Division had a favorable year. Unit sales were up 20 per cent as continuing emphasis on this Caterpillar small-product line produces good results. The LID rental program, introduced late in 1975, made headway and our ability to rent opened the door to sales of new and used units.

To provide another Fraser Valley location for our Light Industrial Division, the Company leased a facility at Langley. This branch complements our Vancouver and Chilliwack operations.

Capital expenditures

The capital expenditure program totalled $4.5 million, including the Whitehorse facility. Two new service depots were completed at a cost of $495,000; at Cassiar in northwestern B.C. and at Corbin in the southeast. A $180,000 welding shop was built for our Vernon branch and an 18,000 square foot building in Prince George was purchased for $515,000 as a lift truck and loader repair centre. The facility at Langley is also 18,000 square feet.

Construction commenced on two other projects; a new service depot at Golden and a new branch building in Nelson. Nelson was Finning's first operation outside of Vancouver, started in 1937. Our present facility was built in 1948. The new building, while filling a real need for expansion, will give impetus to a new industrial park development in the City of Nelson and add to the attractiveness of what we hope will become one of the most beautiful industrial parks in the province.

More employees

The number of employees at year end was 1,664 compared to 1,467 in 1975. Total wages, salaries, and benefits paid to employees in 1976 was $34,525,577 an increase of 16.3 per cent over the $29,695,058 paid in 1975.

The Company and the International Association of Machinists and Aerospace Workers applied to the Anti-Inflation Board to accelerate a wage increase which seemed necessary to regain an historical relationship with other union members in the province. The AIB ruled against this acceleration and against any increase over the guidelines. Coincidental to this ruling, roll-backs were made in other union agreements, the effect being that a reasonable relationship was restored.

Company operations are located in 46 centres throughout British Columbia and the Mackenzie Valley area of the Northwest Territories. Branch locations are: Campbell River, Chilliwack, Cranbrook, Dawson Creek, Houston, Inuvik, Kamloops, Langley, Mackenzie, Nanaimo, Nelson, Prince George, Quesnel, Revelstoke, Terrace, Vancouver, Vernon, Victoria and Williams Lake. Depots are at Burnaby, Cassiar, Corbin, Fort Nelson, Golden, Kelowna, Port Hardy and Sparwood. Service representatives are resident in 19 other communities.

Operations in the Yukon Territory commenced on January 3, 1977.

Perched on ledge, Gardner-Denver rotary drill prepares rock quarry for blasting. Rock is used for ballast on railway roadbed.


GARDNER DENVER
RDC30

Finning Tractor & Equipment Company Limited

Directors

WILLIAM T. BARKER
President and General Manager, Consolidated Equipment & Supply Co. Ltd., Vancouver

H. CLARK BENTALL
Chairman of the Board and Chief Executive Officer, The Dominion Construction Company Limited, Vancouver

ROBERT C. BISS*
Executive Vice President, Finning Tractor & Equipment Company Limited, Vancouver

JOHN D. FRAZEE*
President and Chief Operating Officer, Finning Tractor & Equipment Company Limited, Vancouver

JOHN C. GILMER
Retired. Formerly President and Chief Executive Officer, CP Air, Vancouver

THOMAS E. LADNER, Q.C.
Partner, Ladner Downs, Vancouver

RICHARD E. LANE
Retired. Formerly President and Chief Operating Officer, Finning Tractor & Equipment Company Limited, Vancouver

J. ROSS LEMESURIER
Vice President and Director, Wood Gundy Limited, Toronto

VINOD K. SOOD*
Executive Vice President, Finning Tractor & Equipment Company Limited, Vancouver

W. MAURICE YOUNG*
Chairman of the Board and Chief Executive Officer, Finning Tractor & Equipment Company Limited, Vancouver

*Member, Executive Committee

Officers

W. MAURICE YOUNG
Chairman of the Board and Chief Executive Officer

JOHN D. FRAZEE
President and Chief Operating Officer

ROBERT C. BISS
Executive Vice President

VINOD K. SOOD
Executive Vice President

W. F. (JERRY) HOLMES
Vice President Marketing

PETER J. KELLY
Vice President Divisional Operations

DONALD W. LORD
Vice President Branch Operations

RONALD W. PARK
Secretary

HEAD OFFICE
555 Great Northern Way, Vancouver, Canada

AUDITORS
Arthur Andersen & Co., Chartered Accountants, Vancouver, Canada

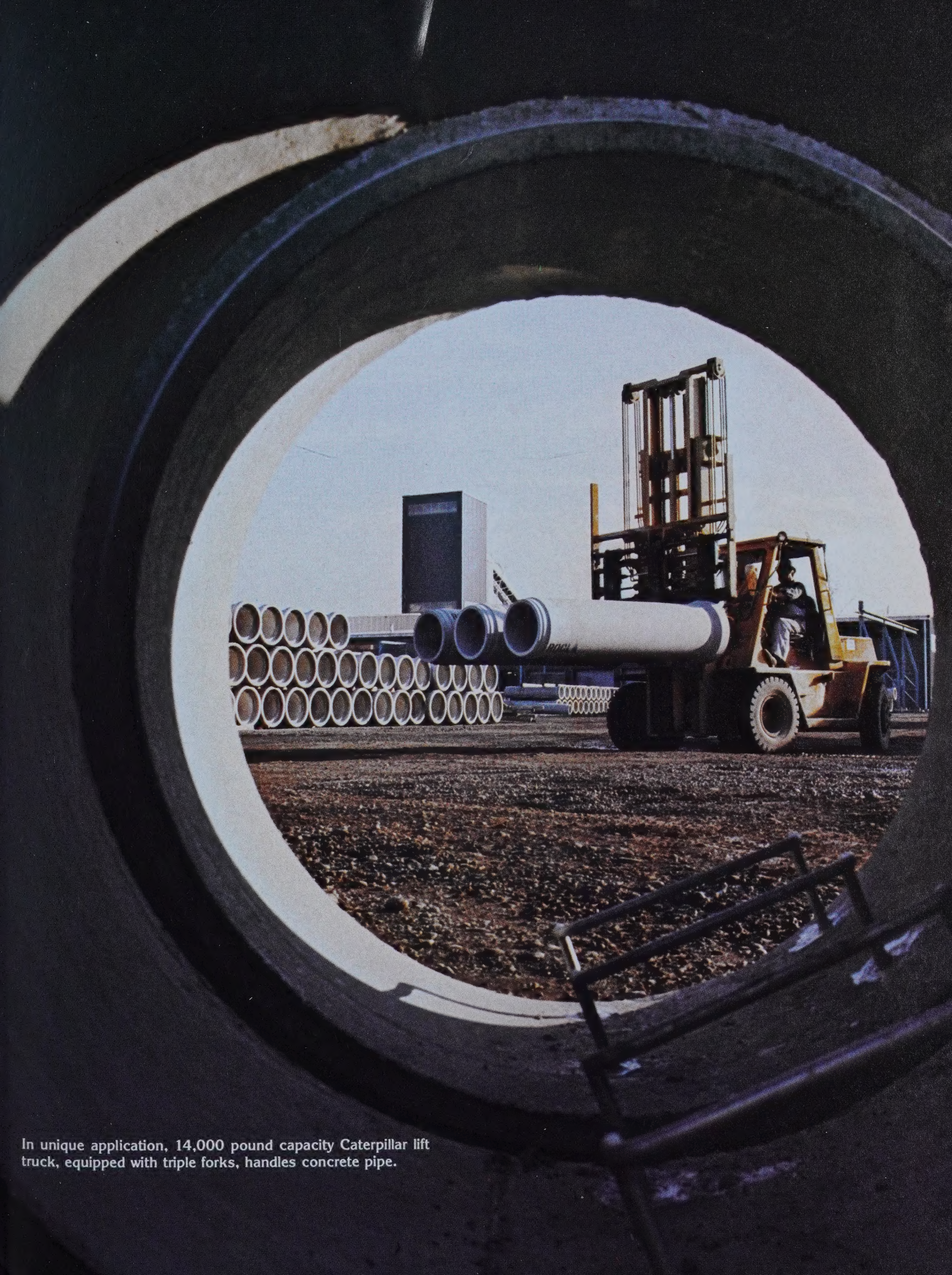
SOLICITORS
Ladner Downs, Barristers and Solicitors, Vancouver, Canada

REGISTRAR AND TRANSFER AGENT
Canada Permanent Trust Company, Vancouver, Calgary, Winnipeg, Toronto and Montreal, Canada

STOCK EXCHANGES
Vancouver Stock Exchange
The Toronto Stock Exchange

Operations, Division and Staff Managers

J. J. Blunt, Prince George Sales
L. R. Broderick, Leasing
J. A. Carthy, Engine Division
C. A. Cederberg, Terrace
D. L. Christie, Administration
R. W. Claridge, Lift Truck
P. Clarke, Inuvik
G. M. Correale, Nelson
B. I. Davis, Vancouver Service
J. D. Desimone, Dawson Creek
D. R. George, Kamloops
C. A. Harris, Data Processing
A. E. Holden, Light Industrial
E. G. Inglis, Training
R. M. Kaye, Vancouver
G. R. Kincade, Prince George
G. F. Kiss, General Service
R. C. Ley, Advertising & Public Relations
C. C. Loyst, Personnel
H. H. Lunow, Purchasing
B. A. McDowell, Cranbrook
W. F. Merrell, Accounting
B. M. Moore, General Parts
T. R. Motteler, Product Support Sales
J. J. Mulvaney, Used Equipment Administration
L. E. Norlander, Vernon
R. J. Sangster, Financial Services
R. S. Scott, Credit
J. F. Shepard, Williams Lake
T. A. Shorter, Used Equipment
A. M. Steele, Audit & Systems
R. W. Stewart, Mining
R. G. Williamson, Air Products



In unique application, 14,000 pound capacity Caterpillar lift truck, equipped with triple forks, handles concrete pipe.

FINNING

555 Great Northern Way, Vancouver, B.C.